

## Message Text

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ACTION EUR-12

INFO OCT-01 EA-09 NEA-10 IO-13 ISO-00 SSO-00 NSCE-00

USIE-00 INRE-00 CIAE-00 DODE-00 PM-04 H-02 INR-07

L-03 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 AID-05

EB-07 FRB-01 XMB-04 OPIC-06 CIEP-02 LAB-04 SIL-01

OMB-01 STR-04 CEA-01 EURE-00 /122 W  
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O R 281749Z JUL 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 4046

INFO AMEMBASSY BERN

AMEMBASSY BONN

AMEMBASSY BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY NEW DELHI

AMEMBASSY PARIS

AMEMBASSY ROME

AMEMBASSY TOKYO

AMCONSUL BELFAST

AMCONSUL EDINBURGH

USMISSION EC BRUSSELS

USMISSION OECD PARIS

USDEL MTN GENEVA

USDOC WASHDC

UNCLAS SECTION 01 OF 03 LONDON 11766

DEPARTMENT PASS FRB

TREASURY FOR DONALD SYVRUD, OASIA

E.O. 11652: N/A

TAGS: ECON, UK

SUBJECT: ECONOMIC DEVELOPMENTS FOR PERIOD JULY 22 - 28.

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SUMMARY: THE CHANCELLOR'S ANNOUNCEMENT OF A 2 BILLION POUND PACKAGE OF PUBLIC SPENDING CUTS AND TAX INCREASES AND THE DOMESTIC AND INTERNATIONAL REACTIONS TO THE PACKAGE OVERSHADOWED THE EMERGENCE OF THE NATIONAL ENTERPRISE BOARD AS AN ACTIVE PARTICIPANT IN BRITISH INDUSTRY. THE ONLY SIGNIFICANT ECONOMIC INDICATOR WHICH BECAME AVAILABLE SHOWED A SLIGHT DECLINE IN THE LEVEL OF REAL CONSUMER SPENDING IN THE SECOND QUARTER OF 1976. LOCAL GOVERNMENT AUTHORITIES CAME UNDER INCREASING PRESSURE TO REDUCE THEIR SPENDING LEVELS. END SUMMARY.

L. LOCAL GOVERNMENT SPENDING. IN THE AFTERMATH OF THE CHANCELLOR'S ANNOUNCEMENT OF PUBLIC EXPENDITURE CUTS, PRESSURE IS BEING RENEWED ON LOCAL GOVERNMENT AUTHORITIES FOR FURTHER ACTION TO INSURE THAT THEIR SPENDING LEVELS IN THE CURRENT FISCAL YEAR DO NOT RISE IN REAL TERMS. ON THE BASIS OF A SURVEY OF LOCAL GOVERNMENT SPENDING PLANS DONE DURING THE SPRING, IT EMERGED THAT LOCAL AUTHORITIES WOULD EXCEED CURRENT SPENDING TARGETS BY 350 TO 400 MILLION POUNDS (4.5 TO 5 PERCENT). THIS FINDING BROUGHT CENTRAL GOVERNMENT PRESSURE TO REDUCE SPENDING. AFTER SEVERAL MONTHS DURING WHICH LOCAL AUTHORITIES CONSIDERED HOW AND WHERE FURTHER REDUCTIONS COULD BE MADE, A SECOND SURVEY OF SPENDING PROJECTIONS SHOWED THAT THE TARGET OF NO INCREASE IN REAL TERMS WOULD STILL BE EXCEEDED BY 200 TO 250 MILLION POUNDS (2.5 TO 3 PERCENT). THIS HAS RESULTED IN THE CENTRAL GOVERNMENT, IN THE PERSON OF PETER SHORE, SECRETARY OF STATE FOR THE ENVIRONMENT, MAKING MORE FORCEFUL EXHORTATIONS TO THE LOCAL AUTHORITY COUNCILS. IF THIS INTENSIVE JAWBONING FAILS TO ACHIEVE ITS PURPOSE, MR. SHORE COULD REDUCE THE CENTRAL GOVERNMENT'S 65 PERCENT CONTRIBUTION TO LOCAL GOVERNMENT REVENUES. EQUALLY, HE COULD LEAVE THE PERCENTAGE UNCHANGED BUT REDUCE THE OVERALL GRANT BY THE AMOUNT OF SPENDING IN EXCESS OF THE TARGET LEVEL. THIS WOULD LEAVE TWO UNPALATABLE ALTERNATIVES: RAISING LOCAL PROPERTY TAXES OR FORCE MAJEURE SPENDING REDUCTIONS AS FUNDS WERE EXHAUSTED.

SINCE LOCAL GOVERNMENTS ACCOUNT FOR ABOUT 29 PERCENT OF TOTAL PUBLIC EXPENDITURE, AN OVERRUN OF 2.5 TO 3 PERCENT COULD INCREASE OVERALL GOVERNMENT SPENDING BY ABOUT 1 PERCENT. THIS WOULD CAUSE A BREACH IN THE GOVERNMENT'S EFFORTS TO IMPOSE CASH LIMITS ON MOST SPENDING CATEGORIES. THE DIFFICULTIES BEING ENCOUNTERED BY LOCAL AUTHORITIES STEM BOTH FROM A HIGHER THAN ANTICIPATED RATE OF INFLATION AND AN UNWILLINGNESS TO CONSIDER REDUCING LEVELS OF EMPLOYMENT. THIS HAS SHIFTED THE BURDEN TO CAPITAL SPENDING PLANS WHICH ARE BEING EITHER DELAYED OR CUT BACK.

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2. BANKS RAISE EXPORT CREDIT LIMIT. UNDER CURRENT EXPORT CREDIT AND SHIPBUILDING FINANCE SCHEMES, U.K. CLEARING BANKS ARE COMPENSATED UP TO THE EQUIVALENT OF COMMERCIAL INTEREST RATES FOR ANY SUCH LENDING THEY DO (UNDER THESE SCHEMES) UP TO AN AMOUNT EQUALLING 18 PERCENT OF THEIR CURRENT ACCOUNT BALANCES. ANY EXPORT CREDIT OR SHIPBUILDING LENDING ABOVE THE 18 PERCENT CEILING ARE FULLY REFINANCED BY THE EXPORT CREDITS GUARANTEE DEPARTMENT. BECAUSE OF RECENT INCREASES IN EXPORT CREDIT, THE GOVERNMENT HAS BECOME CONCERNED, ACCORDING TO PRESS REPORTS, ABOUT THE VOLUME OF REFINANCING THE ECGD IS UNDERTAKING. AS A RESULT OF AN APPROACH BY CHANCELLOR HEALEY, THE CLEARING BANKS HAVE AGREED TO RAISE THE LIMIT AT WHICH

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EB-07 FRB-01 XMB-04 OPIC-06 CIEP-02 LAB-04 SIL-01

OMB-01 STR-04 CEA-01 EURE-00 /122 W

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O R 281749Z JUL 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 4047

INFO AMEMBASSY BERN

AMEMBASSY BONN

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THEY WILL SEEK REFINANCING FROM 18 TO 20 PERCENT OF THEIR  
BALANCES.

3. NATIONAL ENTERPRISE BOARD ACTIVITY. AFTER SIX MONTHS  
DEVOTED TO STAFFING, ORGANIZATION AND INVESTIGATION OF PO-  
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TENTIAL AREAS OF ACTIVITY, THE NATIONAL ENTERPRISE BOARD  
(NEB) HAS BEGUN TO OPERATE IN EARNEST. THE NEB WAS ES-  
TABLISHED LAST AUTUMN UNDER THE INDUSTRY ACT OF 1975 AS  
A KIND OF HALFWAY HOUSE BETWEEN PRIVATE ENTERPRISE AND  
NATIONALIZATION. CONTROL OF GOVERNMENT ACQUIRED EQUITY  
IN LAME DUCK FIRMS SUCH AS ROLLS ROYCE AND LEYLAND WAS  
VESTED IN THE NEB. IN ADDITION THE NEB WAS AUTHORIZED,  
INTER ALIA, TO ACQUIRE EQUITY POSITIONS IN FIRMS WITH A  
VIEW TOWARD SUPPLYING NEEDED ADDITIONAL EQUITY OR BRIDG-  
ING THE FINANCIAL GAP RESULTING FROM A TEMPORARY PERIOD  
DURING WHICH LOSSES WERE BEING INCURRED. THESE LATTER  
FUNCTIONS WERE DEMONSTRATED RECENTLY WHEN THE NEB PAID  
2.4 MILLION POUNDS FOR A 54 PERCENT INTEREST IN THE EQUI-  
TY OF A COMPANY MANUFACTURING COMPUTER PERIPHERALS. THE  
NEB FUNDS PERMITTED THE FIRM TO ISSUE 2 MILLION NEW  
SHARES THEREBY DOUBLING THE FIRM'S EXISTING EQUITY. UN-  
TIL THE NEB STEPPED IN, THE FIRM HAD BEEN UNABLE TO  
RAISE CAPITAL TO SUPPORT ITS RESEARCH AND DEVELOPMENT  
PROGRAM SINCE IT WAS CONSIDERED TO BE OF HIGH RISK.

IN THE SECOND CASE THE NEB HAS OFFERED TO PAY ONE  
MILLION POUNDS FOR A ONE-THIRD INTEREST IN AN OFFICE  
EQUIPMENT FIRM WHICH, ALTHOUGH IT HAD HAD A GOOD PROFIT  
RECORD, INCURRED A SUBSTANTIAL LOSS OVER THE PAST 12  
MONTHS AND HAD REACHED ITS BORROWING LIMITS. THE MIL-  
LION POUNDS WILL ENABLE THE FIRM TO INCREASE ITS OUT-  
STANDING SHARES BY A THIRD THEREBY IMPROVING ITS EQUITY  
BASE AND ITS ABILITY TO BORROW.

IN THE CASE OF THE OFFICE EQUIPMENT FIRM, THE NEB HAS  
ASKED TO APPOINT TWO DIRECTORS TO THE BOARD OF DIRECTORS.  
THERE IS NO INDICATION THAT THE NEB WILL PLAY AN ACTIVE  
ROLE IN THE MANAGEMENT OF THE COMPUTER PERIPHERALS COM-  
PANY.

4. CONSUMER SPENDING. REAL CONSUMER EXPENDITURE DECLINED BY 0.4 PERCENT DURING THE SECOND QUARTER ON THE BASIS OF THE FIRST PROVISIONAL ESTIMATE. TOTAL CONSUMER SPENDING (1970 PRICES) STOOD AT 8.875 BILLION POUNDS, A DECLINE OF 37 MILLION POUNDS FROM THE FIRST QUARTER FIGURE OF 8.912 BILLION. THE SECOND QUARTER RESULT MEANS THAT OVER THE LAST 12 MONTHS REAL CONSUMER SPENDING HAS INCREASED BY 0.4 PERCENT ALTHOUGH THE ANNUAL RATE OF IN-

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CREASE FOR THE FIRST HALF OF 1976 WAS 1.6 PERCENT. THE SHARP INCREASE IN FIRST QUARTER AUTOMOBILE SALES WAS IN PART RESPONSIBLE FOR THIS FASTER RATE OF INCREASE. HOWEVER, THE RATE OF INCREASE IN AUTOMOBILE SALES LEVELLED OFF DURING THE SECOND QUARTER WHILE SALES OF FOOTWEAR, CLOTHING AND "FUEL AND LIGHT" DECLINED. THE SECOND QUARTER FIGURES PROVIDE LITTLE EVIDENCE OF A FURTHER DECLINE IN THE SAVINGS RATIO AFTER THE 1 PERCENTAGE POINT DROP RECORDED IN THE FIRST QUARTER.

#### 5. EXCHANGE RATE AND GOLD

##### EFFECTIVE

##### EXCHANGE DEPRECIATION

DATE	RATE (\$)	(PERCENT)	GOLD
7/21	1.7845	38.5	\$113.25
7/22	1.7835	38.4	\$111.625
7/23	1.7820	38.5	\$111.125
7/26	1.7790	38.7	\$112.75
7/27	1.7820	38.6	\$114.125

CHANGE 7/20-7/27 UP 0.0005 UNCHANGED UP \$ 7.125

#### 6. FORWARD DISCOUNT ON STERLING

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/21	1.18	3.38	6.05
7/22	1.10	3.20	5.85
7/23	1.10	3.20	5.95
7/26	1.15	3.25	5.95
7/27	1.15	3.15	5.95

CHANGE 7/20-7/27 UNCHANGED DN0.25 UNCHANGED

(ALL FIGURES IN CENTS)

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OMB-01 STR-04 CEA-01 EURE-00 /122 W  
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O R 281749Z JUL 76

FM AMEMBASSY LONDON

TO TREASURY DEPT WASHDC IMMEDIATE

SECSTATE WASHDC 4048

INFO AMEMBASSY BERN

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#### 7. EURODOLLAR INTEREST RATES

DATE	1 MONTH	3 MONTHS	6 MONTHS
7/21	5-1/4	5-3/4	6-3/8
7/22	5-1/2	5-7/8	6-3/8

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7/23	5-3/4	5-7/8	6-3/8
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7/26	5-3/8	5-3/4	6-3/8
7/27	5-1/4	5-3/4	6-3/8

CHANGE 7/20-7/27    DN   1/4   DN   1/4    DN   1/8

8. THREE-MONTH LONDON INTERBANK   EURODOLLAR INTEREST  
RATE DIFFERENTIAL

DATE

7/21	5.9/16
7/22	5-13/32
7/23	5-13/32
7/26	5-9/16
7/27	5-17/32

9. STERLING CERTIFICATES OF DEPOSIT

DATE            1 MONTH   3 MONTHS   6 MONTHS

7/21	11-3/16	11-5/16	11-7/16
7/22	11-1/8	11-1/4	11-7/16
7/23	11-3/16	11-1/4	11-7/16
7/26	11-1/8	11-1/4	11-1/2
7/27	11-1/8	11-1/4	11-1/2

CHANGE 7/20-7/27    DN   1/8   DN   1/16   UNCHANGED

10. THE MINIMUM LENDING RATE REMAINED UNCHANGED AT 11-1/2 PERCENT ON FRIDAY, JULY 23. THE TREASURY BILL RATE ROSE BY 0.0169 PERCENT TO 10.8674 PERCENT AS THE 500 MILLION POUNDS OF BILLS OFFERED ATTRACTED BIDS OF 881.82 MILLION POUNDS. THIS WEEK 600 MILLION POUNDS WILL BE ON OFFER REPLACING MATURITIES OF 550 MILLION.

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## Message Attributes

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**Draft Date:** 28 JUL 1976  
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**Disposition Action:** n/a  
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**Disposition Authority:** n/a  
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**Disposition Reason:**  
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**Office:** ACTION EUR  
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**Original Previous Handling Restrictions:** n/a  
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04 MAY 2006

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**TAGS:** ECON, UK  
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STATE  
**Type:** TE  
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